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## The War and American Shipping

BY JOHN C. deWILDE

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# The War and American Shipping

BY JOHN C. deWILDE

WAR in Europe has affected ocean shipping more profoundly than any other American industry, except, perhaps, the aircraft industry. On certain routes trade has expanded; on others it has contracted. The number of ships available to carry the world's commerce has been sharply curtailed. German shipping has been largely swept from the seas. Many British and French vessels have been mobilized for direct war service as auxiliary cruisers, supply ships, mine-sweepers, mine-layers and transports. Still more ships have been directly or indirectly commandeered by belligerent and even neutral governments to carry goods indispensable to national economic life.

Considerable tonnage has already been sunk by submarines, mines, aircraft and raiders. The warfare at sea has necessitated protection of merchant vessels by convoying and re-routing, and adoption of measures for the control of neutral shipping which have inevitably entailed delays and reduced transportation facilities. All these developments have left their mark on the United States. Ships have become relatively scarce. Freight rates on American imports and exports have shot up. Doubts have arisen that shipping will be adequate to handle American foreign trade. Neutrality legislation, designed to avoid friction and incidents with the belligerents, has completely barred American vessels from trade with a large part of Europe. In addition, the war has raised problems concerning our shipbuilding program and the disposition of obsolescent tonnage which call for solution.

The outbreak of hostilities found the United States engaged in a long-range program to rebuild the American merchant marine. The government had just begun to deal on a large scale with the shipping legacy left by the last war. During and immediately after the World War the United States, through the Shipping Board and its subsidiary, the Emergency Fleet Corporation, had acquired an enormous merchant fleet of 2,546 ships aggregating 14,703,719 dead-weight tons and costing well over $3,000,000,000.[1] The very existence of this large merchant marine, built within a few years, had discouraged the construction of more efficient and economical ships. About twenty years later virtually the entire fleet was simultaneously approaching obsolescence.

Ever since the World War the United States had tried to maintain a merchant marine of sufficient tonnage and quality to carry a substantial portion of its foreign commerce, and to furnish the navy with auxiliaries and supply ships in time of war. In rather haphazard fashion, one subsidy after another had been granted to keep American-flag ships operating on essential foreign trade routes. For this wasteful and somewhat ineffective government aid the Merchant Marine Act of 1936 had substituted a new and more scientific scheme of assistance designed to offset as exactly as possible the difference between foreign and American shipbuilding costs, as well as the lower operating costs enjoyed by foreign competitors. Administration of these subsidies had been entrusted to the U.S. Maritime Commission,[2] an agency of five members, which was instructed to prepare and carry out, in close cooperation with the Navy Department, a long-range program for renovation of the merchant marine.

### ACHIEVEMENTS OF THE MARITIME COMMISSION

Within a few years the Maritime Commission made notable progress. In place of the old ocean-

1. For earlier reviews of American shipping, cf. J. C. deWilde, "Ship Subsidies and the Future of World Shipping," *Foreign Policy Reports*, March 14, 1934; and C. N. Weems, Jr., "Rebuilding the U.S. Merchant Marine," *ibid.*, January 1, 1938.

2. The first chairman of the Commission was Joseph P. Kennedy, who was succeeded in February 1938 by Rear Admiral E. S. Land (retired).

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mail contracts, it concluded new long-term operating subsidy agreements with 17 shipping lines, covering virtually all the essential foreign trade routes of the United States. Under these contracts, 150 of the 326 American vessels operating in foreign commerce received subsidies during 1939.[3] Substantial savings were effected by careful calculation of the cost differential between American and foreign operators on each route. Instead of taking the expenses of the lowest-cost foreign competitor as a basis, the Commission worked out a weighted average from the operating expenses of all foreign competitors.[4] In only one case did it grant a countervailing subsidy to offset the effect of foreign government assistance, as it is permitted to do by a 4 to 1 vote.[5] According to estimates made by Commission experts in 1937, the companies which formerly had mail contracts would have received less than half the subsidies actually enjoyed if they had been operating under the assistance scheme established by the 1936 Act.[6]

In accordance with a Congressional mandate, the Commission has taken the government completely out of the shipping business. In 1936 thirty-six old cargo vessels were still being operated for government account on five trade routes.[7] Since private shipping interests willing to take over these vessels and shoulder the burden of replacing them with new tonnage were hard to find, the Commission succeeded in selling only one service—the India route of the American Pioneer Line, which was acquired by the American Export Lines in November 1939.[8] The remaining lines were taken over by private companies in accordance with 3-year bareboat charter agreements, under which the government retained ownership of the vessels but received a flat sum for charter hire each month and was released from all responsibility for operation.[9]

### BUILDING NEW SHIPS

The Commission tackled with great vigor the difficult task of rebuilding the merchant marine. In a preliminary survey conducted in 1937 it discovered that 91.8 per cent of the number and 88 per cent of the tonnage of the 1,422 ocean-going vessels under the American flag would be obsolete (20 years old or more) by 1942.[10] The Commission obviously could not undertake to replace 1,305 ships within five years. Such a program would have overtaxed shipyard facilities and cost the staggering sum of more than $2,500,000,000.[11] Instead, the Commission laid down a 10-year program calling for the construction of 500 vessels at an approximate cost of $1,250,000,000. The first of these ships—a fast luxury liner designed for the trans-Atlantic service of the U.S. Lines—was ordered in 1937. Named the *S.S. America,* it is due to be completed in the early summer of 1940. In 1938 contracts were let for 51 more ships; and the following year the pace was accelerated and 89 vessels were ordered, to anticipate the rise in construction costs that might follow the possible outbreak of war. By the end of March 1940, 41 of these 141 ships had been launched and 28 completed.

In order to economize on building costs, the Commission designed four types of cargo and combination passenger and freight vessels. By standardizing certain features, such as the hull, and contracting for ships in groups, savings of 10 to 15 per cent were made in some cases.[12] At the same time, the

3. U.S. Maritime Commission, *Press Release No. 416,* October 10, 1939.

4. In justification of this procedure, the Commission pointed out that the freight and passenger rates prevailing on each route are generally determined by so-called conference agreements among all the operators, and that such rates are not necessarily based on the costs of the most economical operator. Cf. House of Representatives, 76th Congress, 1st session, *Hearings before the Committee on Merchant Marine and Fisheries on H.R. 5130, Part II,* pp. 213-14.

5. The Commission has stressed that it is empowered to act only if foreign government aid becomes *effective*—that is, if the subsidized foreign operator is enabled to exert such a disrupting influence on the passenger and freight rate structure that American lines cannot carry on without additional assistance. *Ibid.,* pp. 209-12.

6. *Ibid.,* pp. 223-37.

7. These comprised the America-France Line (North Atlantic ports to France), the American Hampton Roads-Yankee Line (North Atlantic ports to United Kingdom and Germany), the Oriole Lines (North Atlantic ports to United Kingdom), the American Republics Line (Atlantic ports to east coast of South America), and the American Pioneer Line (services to India, Australia and the Far East).

8. U.S. Maritime Commission, *Press Release No. 433,* November 8, 1939.

9. In this way, the government disposed of its American Republics Line service to the east coast of South America, which was taken over by the Moore-McCormack interests who were already operating the American-Scantic Line to Scandinavia and the Baltic. The Moore-McCormack company also chartered, beginning January 1, 1939, three fast passenger liners which the Commission had acquired from the Panama Pacific Line and reconditioned for the South American service. These ships now constitute the Good Neighbor fleet operating from New York to Brazil, Uruguay and Argentina. In September 1939 the Commission chartered its three remaining Atlantic services to the U.S. Lines which had been operating a fleet of passenger and cargo vessels to the United Kingdom, France and Germany. In February 1940 the same company also acquired on bareboat charter the 12 freighters employed in the Far Eastern and Australian services of the government's American Pioneer Line. Finally, in March 1940, the Commission agreed to let the reorganized American Mail Line charter the Puget Sound Orient Line, a freight service running six ships from Seattle to the Far East which had been inaugurated just a year before.

10. U.S. Maritime Commission, *Economic Survey of the American Merchant Marine,* November 10, 1937, pp. 37-38.

11. *Ibid.,* p. 82.

12. "Shipbuilding—1939," a survey issued by H. Gerrish Smith, President, National Council of Shipbuilders.

design of each type was sufficiently elastic to permit adjustments for the special requirements of certain operators. Either Diesel or turbine propulsion could be chosen. In all vessels stress was put on economy of operation, fireproof construction, and modern cargo-handling gear. In all, 111 such standardized ships were ordered.[13] Operators were also permitted to contract for vessels of their own design.[14]

Entirely aside from its 500-ship replacement program, the Commission undertook the construction of 24 fast tankers designed for private operation in time of peace and for use as naval auxiliaries in war. Under this project the government agreed to pay the cost of increasing the speed from ordinary commercial requirements to 16.5 knots and of installing other national defense features.[15] The Standard Oil Co. of N. J. contracted for 12 of these tankers. Of this number eight have been completed and three sold to the Navy Department. Six more will shortly be put on the ways for the Socony-Vacuum Oil Company.[16]

### FEW PRIVATE BUILDING COMMITMENTS

Only 28 of the 141 ships built or building under the Commission's program were ordered for the account of private shipping companies. The Merchant Marine Act of 1936 provided that vessels could be built for both private and government account. Under Title V operators could have the Commission place contracts for vessels of approved design with American shipbuilders. The Commission would pay the cost of any national defense features included, as well as the difference between the foreign and domestic cost of construction. The operator was required to make a down-payment equal to 25 per cent of the cost of the vessel and pay the balance over 20 years. If the Commission could not get adequate building commitments from private operators, Title VII authorized it, with the consent of the President, to order vessels for its own account. Such ships were to be let on bare-boat charter for operation on essential trade routes at an annual rate not less than 5 per cent of the cost, the charterer to have an option to buy at any time within five years.

The Commission did its best to obtain private building commitments. It secured legislation reducing the required down-payment from 25 per cent of the domestic cost of construction to 25 per cent of the foreign building cost. Another amendment, adopted in 1939, permitted the Commission to accept obsolete vessels in part payment for new ships.[17] In addition, the Commission adopted a liberal policy in according construction differential subsidies. Under the law it could grant differentials up to 33⅓ per cent of the American building costs, and up to 50 per cent if four of the five members approved. In practice, the subsidies on cargo and combination vessels built under Title V amounted to between 44 and 48.82 per cent.[18] These inducements proved insufficient, not only because few shipowners had enough capital to finance new construction, but because operators knew they could later charter or buy ships from the Commission on fairly favorable terms.[19]

13. This number includes 38 so-called C-1 vessels (a small freighter with a normal speed of 14 knots); 40 C-2 ships (a larger, all-round freighter capable of 15.5 knots); 22 C-3 cargo vessels (the largest and fastest freighter, with a speed of 16.5 knots); and 11 C-3 combination passenger and cargo ships. For a complete description of these vessels, cf. U.S. Maritime Commission, *Report to Congress for the Period ended October 25, 1939* (hereafter cited as *1939 Report*), pp. 46-47; also *New Ships for the Merchant Marine* (U.S. Maritime Commission, Division of Marine Promotion and Information, October 1939, mimeographed).

14. The Mississippi Shipping Company ordered three combination passenger and freight ships for operation in the Delta Line from the Gulf to the east coast of South America. The Seas Shipping Company has under construction six 15.5-knot freighters for the Robin Line to South Africa; and the American Export Line has ordered eight 16.5-knot cargo vessels of which two have been completed. Aside from the *S.S. America*, soon to be finished for the U.S. Lines, the Commission advertised in February 1940 for bids to build two luxury liners for trans-Pacific service. The latter ships, which are to have a speed of 24 knots and accommodations for 1,000 passengers, will be equipped with a wide, unobstructed sun-deck so that they can easily be converted into aircraft carriers in time of war (U.S. Maritime Commission, *Press Release No. 497*, February 13, 1940).

15. According to the Commission, these features include "magazine spaces, gun foundations, oiling-at-sea gear, heaving-lift facilities, and pumping arrangements to allow flexible tank pumpage to carry four or more grades of oil." They account for about 28 per cent of the total cost (cf. U.S. Maritime Commission, *1937 Report*, p. 5).

16. U.S. Maritime Commission, *Press Release No. 494*, February 9, 1940.

17. 76th Congress, 1st session, *Public No. 259*, section 7.

18. U.S. Maritime Commission, *1939 Report*, cited, p. 45. No construction differential subsidy was paid on tankers which were industrial carriers and not destined for operation on regular foreign trade routes. In calculating the subsidy the Commission met with great difficulty, not only because foreign costs were hard to ascertain, but because costs abroad also varied considerably. To determine the construction subsidy on the *S.S. America*, the Commission used costs in the Netherlands as a basis; in the case of the Export Line ships, Italian shipyards; and for the C-1 and C-2 vessels, Danish shipyards.

19. In an effort to make it more profitable for private operators to have ships built for their own account, the Commission obtained legislation from Congress in 1939 (*Public No. 259*) providing that companies which chartered vessels from the Commission and exercised the option to buy henceforth had to make a down-payment equal to 25 per cent of the purchase price. The same law, however, also reduced the annual charter hire from 5 per cent of the American cost of construction to 5 per cent of the foreign cost, plus 3.5 per cent of the depreciated cost of the vessels. This provision cut the charter hire of a cargo vessel costing $3,000,000 in an American yard to $2,256,375 over a 20-year period (the normal life of a ship)—a sum only slightly higher than the $2,148,193 which the shipowner would have to pay for a vessel built under Title V of the

Under these circumstances, the Commission was compelled early in 1938 to go ahead with a construction program for its own account. This did not mean that contracts were placed simply in the blind hope that employment might be found for the ships after completion. Every vessel was in fact tentatively assigned to a definite foreign trade route where tonnage was obviously needed. Subsequently, the Commission sought to obtain definite commitments to charter or buy such ships under operating-subsidy agreements,[20] in contracts for the sale or charter of government shipping services,[21] or in return for permission to sell old tonnage to foreign interests. Thus private operators have definitely agreed to purchase or charter a majority of the 141 vessels ordered by the Commission, and negotiations are now in progress covering disposition of the remainder.

### THE NEUTRALITY ACT AND ITS EFFECT ON SHIPPING

Such, in brief, was the picture when the war broke out and created new problems for American shipping. Those people who recalled our experience during the World War immediately began to speculate concerning the effect of hostilities. Would there again be a severe shortage of ships? Would freight rates once more soar to unprecedentedly high levels? What measures, if any, could be taken to counteract unfavorable effects on our foreign trade and shipping? Should our reserve fleet be sold or brought back into operation in some other way? Should the Maritime Commission accelerate its construction program?

The approval of a new Neutrality Act on November 4, 1939 introduced additional complications. Under this Act, and the Presidential proclamations issued pursuant thereto, American vessels were forbidden to carry passengers and goods to the belligerent countries of Europe, as well as to their North African possessions and most of the ports on the eastern coast of Canada. In addition, American ships were completely barred from a combat zone including the seas bordering Western Europe, from a point directly south of Bergen on the Norwegian coast to a point just northeast of Bilbao on the northern coast of Spain.[22] In essence, these restrictive measures contradicted previous legislation which sought to build up an American merchant marine capable of carrying our foreign trade at all times, particularly during such emergencies as war. Congress, however, preferred to sacrifice certain shipping and commercial interests in order to minimize the danger that we might become involved in hostilities if American vessels were sunk and American lives lost.

The Neutrality Act necessitated the suspension of a large number of American-flag services to Europe, which had been operating about 80 ships totaling 516,317 gross tons. Approximately one-quarter of our active foreign trade fleet was thus deprived of employment, and almost 5,000 American seamen stood in danger of losing their jobs.

SHIPPING SERVICES SUSPENDED BY NEUTRALITY ACT[22a]

| | *Number of Ships* | *Total Gross Tonnage* |
|---|---|---|
| United States Lines | | |
| Own ships (U.S. North Atlantic to United Kingdom and Continent) | 11 | 128,451 |
| Government ships (3 freight services from U.S. Atlantic to United Kingdom and Continent) | 16 | 86,000 |
| Black Diamond Lines (U.S. North Atlantic to Antwerp-Rotterdam) | 8 | 41,031 |
| South Atlantic Steamship Company (U.S. South Atlantic to United Kingdom and Continent) | 6 | 30,212 |
| Waterman Steamship Corporation (U.S. Gulf to United Kingdom and Continent) | 11 | 61,223 |
| Isthmian Steamship Company (U.S. Pacific Coast to Europe) | 3 | 18,148 |
| Lykes Brothers Steamship Company (freight services from U.S. Gulf to British Isles and Continent) | 25 | 151,252 |
| Total | 80 | 516,317 |

In addition to the lines which had to suspend American-flag operations entirely, one—the American-Scantic Line—was compelled to curtail sharply

1936 Act. This difference might not be a sufficient inducement for ownership, particularly when the operator was unwilling or unable to risk the investment required. Cf. *Hearings before the Committee on Merchant Marine and Fisheries on H.R. 5130, Part II*, cited, pp. 185-86.

20. All but one of these agreements stipulated the acquisition of new tonnage. For details, cf. U.S. Maritime Commission, *1939 Report*, cited, pp. 6-9.

21. The private operators who acquired government lines were committed to the introduction of 32 new vessels, of which 18 are to be purchased outright and the balance under bare-boat charter. Cf. U.S. Maritime Commission, *Press Release No. 518*, March 7, 1940.

22. For text of the Neutrality Act of 1939 and an analysis of its provisions, cf. David H. Popper, "American Neutrality and Maritime Rights," *Foreign Policy Reports*, January 1, 1940.

22a. This list was compiled on the basis of information furnished by the Division of Operations of the Maritime Commission, but is not official. Estimates on the number of ships made idle by the neutrality legislation vary considerably, apparently due to fluctuations in the tonnage employed in certain services. The Shipping Editor of the *Journal of Commerce* (December 4, 1939) gives the total as 84 vessels, with a gross tonnage of 536,111. In his estimate the number of ships withdrawn by the Isthmian Steamship Company and the Waterman Steamship Corporation is put at 5 and 13 respectively.

its normal service to Scandinavian and Baltic ports. Instead of the seven vessels (35,519 gross tons) normally employed on this run, only two or three are now operated in fortnightly service to Bergen, Norway. Still other companies, with services through the Mediterranean, were required to omit certain ports of call.

The Neutrality Act was obviously a blow to ship operators, particularly since no form of compensation was offered. Under the circumstances, two courses were open to them. One alternative was to abandon services to Western Europe completely and—if unable to employ the ships on other lines under their management — sell the vessels to foreign or American companies or let them out on charter for operation in trades unaffected by neutrality legislation. The other alternative was to dispose of the American ships somehow, but to maintain the service with foreign-flag vessels.

The first course was adopted by all but two of the companies. In practice it proved much less difficult to dispose of idle tonnage than had originally been expected. The war created a brisk demand for the purchase and charter of ships, and for operation not only in trade with the European belligerents, but also on other routes. Nearly all the displaced vessels found employment within a few months. Lykes Brothers, one of the largest operators affected, soon let a dozen of its vessels on temporary charter in the Chilean nitrate trade. Three were chartered by the Robin Line for its African service; and the remaining ships were assigned to other services of the owner. Subsequently the company was permitted to sell six of these old freighters to French and British interests, as well as four ships hitherto operated on other routes. The Isthmian Steamship Company, a subsidiary of U.S. Steel, had no difficulty in placing its vessels in the wide variety of services which it operates to Hawaii, the Far East, India and the Near East. It was even able to give employment to three displaced vessels of the South Atlantic Steamship Company and a number of Black Diamond ships. The remaining three ships of the South Atlantic Steamship Company were chartered for the Latin American trade. Three of the Waterman vessels were diverted to intercoastal trade, and the others chartered for service in South America and the Orient. Some time before the Neutrality Act went into effect, Moore-McCormack had sold the seven ships in its American-Scantic Line to Lloyd Brasileiro as part of a transaction involving 14 old steamers. The vessels which would have replaced these in the Scandinavian run if sailings had not been curtailed readily found employment in the company's expanding American Republics Line services to the east coast of South America.

Greater difficulty was experienced by the government in disposing of 16 of its own freighters which had been chartered by the U.S. Lines when the Act became law. All of them had to be withdrawn from their regular routes. The Maritime Commission subsequently transferred one of these freighters to the War Department. Two were assigned to the Puget Sound Orient Line, which the Commission later advertised for sale or charter. Four went to augment the fleet operating in the Far Eastern and Australian services of the American Pioneer Line, which the U.S. Lines acquired in February 1940 on bare-boat charter. Three more were sold to the Robin Line in March 1940. The remaining six are still in the hands of the U.S. Lines and are employed in a newly established fortnightly freight service to the Spanish ports of Vigo and Bilbao, as well as on occasional voyages to the Russian port of Poti on the Black Sea.

The mere fact that virtually all of the ships displaced by the Neutrality Act found employment elsewhere does not necessarily mean that the companies did not suffer losses. Trade with Western Europe held out the prospect of large profits despite the risks involved. If foreign competitors reaped these profits, their financial position would be strengthened against the day when American lines could resume service. When the neutrality legislation was pending before Congress the Maritime Commission expressed the fear that if the vessels were laid up for even a year "it would be many years before they could regain their present position in the trades." A shipper, it claimed, would "continue to patronize even in normal times, a line which has best served his interests in emergencies."[23] On the other hand, the present construction program of the Commission offers some assurance that American lines will be able to resume operations on European routes with new, fast vessels. With such ships trade may be recaptured more easily than is generally anticipated, particularly if the tonnage of foreign nations is depleted by war losses.

The Black Diamond Line and the U.S. Lines found a way to continue their own services in some form. The Black Diamond almost immediately let its American-flag vessels on charter, primarily for operation in the African and trans-Pacific trades. In turn it chartered neutral tonnage, largely of Scandinavian registry, with which to maintain its regular

23. *Congressional Record, Appendix*, October 12, 1939, p. 654.

sailings to Rotterdam and Antwerp.[24] The U.S. Lines was compelled to lay up its ships for some time. Its problem was complicated not only by the existence of a large and important organization afloat and ashore which it was reluctant to disband, but by the ownership of the two largest and most modern passenger liners, the *Manhattan* and the *Washington*. After negotiations with the Italian Line and the American Export Lines, a place for these two ships was found in December in a fortnightly service from New York to Italian ports. The remaining nine vessels the company sought, with the approval of the Maritime Commission, to transfer to a Panama Corporation, which would permit the U.S. Lines to operate the vessels in their usual services, but under the Panama flag. Although the State Department at first did not oppose the transaction, the Secretary of State later objected, on the ground that it did not constitute a *bona fide* sale and was designed to evade the Neutrality Act. Consequently the company was compelled, on December 9, to withdraw its application for approval of the transfer. One of the vessels, the steamship *Roosevelt*, was subsequently put on a weekly passenger and cargo service to Bermuda, for which it received a subsidy of £1,200 per round trip from the Bermuda government.

On December 26 the company applied to the Maritime Commission for permission to sell its other ships to a Norwegian corporation, the North Atlantic Transport Company, in which the U.S. Lines held 40 per cent of the stock and the remaining 60 per cent was to be acquired by Norwegian nationals. While the Commission gave its consent on December 31, the transaction was never consummated, for reasons that have not been fully disclosed.[25] Finally, in February 1940, the U.S. Lines obtained permission for the sale of the vessels to a Belgian company, the *Société Maritime Anversoise*.[26] The terms of this sale are apparently identical with those of the abortive Norwegian transaction. Forty per cent of the stock is owned by the U.S. Lines. Since the Belgian company was capitalized at only 10,000,000 francs ($339,000)[27]—a sum far from sufficient to pay the estimated value of the eight vessels (about $4,000,000)—the American concern probably took a mortgage for the difference between the cash payment and the selling price. Subsequent to the sale, the U.S. Lines chartered the ships from the Belgian company and now acts as its general agent in the United States. At the outset certain of the vessels were put in a service to Belgium, which has suffered from a shortage of shipping since the war, while the others were used on the established trade routes of the U.S. Lines. Sailings began on February 28 and March 2. In return for approval of the transfer, the U.S. Lines agreed to apply all the proceeds of the sale to the construction of four combination passenger and cargo vessels for use in its New York and London service at the conclusion of hostilities.[28]

The losses suffered by the shipping industry due to the Neutrality Act were, at least partially, offset by gains in other directions. The war brought about a considerable disarrangement of shipping. The mobilization of vessels for war purposes left a shortage of transportation facilities on many routes of which American companies, like other neutrals, could take advantage. In addition, there was an increase in the volume of traffic in certain trades. American-flag lines to Central and South America could expand their operations. In the first four months of the war, for example, the Grace Line's freight vessel sailings from U.S. Atlantic ports to the west coast of South America rose to 15 as compared with 7 in the previous four months, while its freight sailings in the Caribbean service increased from 3 to 15.[29] Moore-McCormack also expanded its service to the east coast of South America, adding a new cargo line in January 1940.[30] The Isthmian Steamship Company chartered extra tonnage on many of its regular routes,[31] and the Panama Pacific Line, a subsidiary of the U.S. Lines, extended the operation of four of its five ships, which are employed in the intercoastal trade, to the Far East.[32] American tonnage in the African trade was also augmented; and the American Export Lines, operating to the Mediterranean and the Near East, experienced a heavy rise in traffic.[33] On the other hand, lines depending largely on passenger trade suffered a sharp drop in revenue

24. According to a statement made early in February by Vice-President J. E. Dockendorf, the Black Diamond Line had chartered 28 foreign-flag ships since the beginning of November, of which 16 were then in operation. *The New York Forwarder*, February 5, 1940.

25. According to some reports the German government, anxious to curtail shipping to Britain as far as possible, pressed Norway to withhold its approval; according to others, the State Department used its influence to veto the project. *The New York Times*, January 14, 1940.

26. U.S. Maritime Commission, *Press Release No. 505*, February 19, 1940.

27. *The New York Times*, February 21, 1940.

28. Information furnished by the U.S. Lines.

29. Information furnished by W. R. Grace & Co.

30. *Journal of Commerce*, December 21, 1939.

31. *Ibid.*, October 27, 1939.

32. *The New York Forwarder*, December 25, 1939.

33. Earnings for the four months ending December 31, 1939 were reported at about $1,100,000, as compared with only $292,468 for the entire fiscal year ending August 31, 1939. *Ibid.*, February 12, 1940.

owing to the general reluctance of the public to travel by sea during the war.

### WORLD MERCHANT MARINE LARGER THAN IN 1914

For the American economy as a whole, the fate of individual steamship companies is of much less concern than the general question whether there are, and will be, enough ships to carry the products of our farms, mines and factories. In finding an answer to this problem it is important to consider not only the number of American vessels available, but the total tonnage of the world's merchant marine. No nation carries all of its foreign trade. Only one-third of our foreign commerce, for example, is carried in American bottoms.

The tonnage of all steam and motor vessels in the world (100 gross tons and over) was about 50 per cent greater in 1939 than in 1914.[34] In addition, the average speed of merchant vessels has probably increased 20 per cent, while the improvement of loading and unloading facilities has further enhanced their carrying capacity. Before the present war the available tonnage was considerably in excess of peace-time commercial requirements.[35] Many ships were idle and numerous others sailed the seas half-empty. Even assuming that the belligerents mobilize for direct military service the same proportion of world tonnage as last time, the number of ships left for commercial use will still be greater than in the World War. Nor is it certain that war losses will be as large. In the first six months of the current war approximately 394 vessels, aggregating 1,384,669 gross tons, were sunk—a total far below the 3,856,800 tons sunk in the first half-year following the inauguration of unrestricted submarine warfare in 1917.[36] The institution of the convoy system within a month after the outbreak of hostilities undoubtedly cut down the loss.[37] The British government has also taken over complete control of shipbuilding in order to prevent the drastic decline in construction which occurred in the last war.[38]

In addition, the belligerent powers have this time taken prompt measures to conserve the use of available tonnage. Imports of non-essentials were sharply curtailed from the beginning, while during the World War a detailed program of import restrictions had not been worked out until early 1917. In Britain a Ministry of Shipping with full control over freight rates and the employment of merchant vessels was set up in October 1939—a measure which was not adopted until December 1916 in the last war. Similarly, a general order requisitioning all British liners to insure their most efficient utilization became effective on February 1, 1940, instead of almost two and a half years after the beginning of the war, as in 1914-1918.

Not only is the total tonnage capable of continuing regular service in the world's trade routes larger, but the American share is greater. Our seagoing merchant fleet rose from 2,026,908 gross tons in 1914 to 8,909,892 tons in 1939. While the total includes the laid-up government fleet as well as vessels in the coastwise and intercoastal trades, these could be mobilized to carry our foreign commerce in case of emergency. The number of ships actually engaged in foreign trade increased from 116 to 326, and the tonnage from a little over half a million to more than two million. In 1914 American vessels carried less than one-tenth of our foreign commerce as against one-third today.

Whether available shipping facilities will be adequate to handle our foreign trade will also depend in large measure on the development of demand for American products. An accurate forecast is obviously impossible, if only because the requirements of the belligerents will depend on the scale of hostilities. Judging from the evidence at hand, however, there is little likelihood that demand for American goods will experience a boom similar to that of 1914-1917. Europe no longer takes as large a percentage of our exports as formerly; in the five-year period preceding the present conflict it bought only two-fifths of our exports, as compared with three-fifths before the World War. Nor does the United States have such a prominent share in the world market for raw materials and foodstuffs as in 1914. New and alternative sources of supply have been developed, particularly in South America

34. Since 1914 the number of ships has increased from 24,444 to 29,763 and the gross tonnage from 45,403,877 to 68,509,432. Cf. *Lloyd's Register of Shipping 1939-1940.*

35. In July 1939 idle tonnage amounted to 2,974,000 gross tons. U.S. Department of Commerce, *Foreign Shipping News,* October 6, 1939.

36. *The New York Times,* March 2, 1940. This includes 364 Allied and neutral ships, with a total tonnage of 1,231,088. The German High Command, however, put such losses at a much higher figure—532 vessels, totaling 1,904,913 gross tons. *Ibid.,* March 3, 1940.

37. According to a communiqué of the British Admiralty issued on March 4, only 25 of the 10,728 belligerent and neutral vessels convoyed in the first six months of the war were lost. *Ibid.,* March 5, 1940.

38. The tonnage of merchant vessels launched in Britain fell from 1,932,000 in 1913 to 608,000 in 1916 according to *Lloyd's Register of Shipping.* Winston Churchill, First Lord of the Admiralty, has claimed that Britain's net loss in merchant marine tonnage (presumably taking into consideration new construction and tonnage seized from the enemy) amounted to only 200,000 tons during the first half-year of the present war. *The New York Times,* February 28, 1940.

and the British Dominions.[39] The Department of Agriculture sees little prospect of any substantial increase in the exportation of agricultural products —except, perhaps, lard, bacon and ham[40]—and must reckon with a decline in the sale of fruit and tobacco. Industrial products are more in demand. Belligerent purchases of certain specialties like planes, machine tools and trucks will undoubtedly continue to increase, but the Allies can be expected to make ships available for everything they officially buy in this country. On the other hand, buying may be limited by the "cash and carry" clause of the Neutrality Act.

American trade with most neutrals will probably rise slowly, but only if neutral countries can retain their purchasing power and the strenuous efforts of the belligerents to keep up their export trade fail.

### AMPLE SHIPPING FACILITIES FOR OUR EXPORTS

As yet there is little or no evidence that American exports have suffered severely from a shortage of shipping facilities. The enlistment of many vessels in war service has, of course, made ships scarce as compared with peace time. The establishment of government control over shipping in belligerent countries inevitably caused some dislocation in the world's transportation services. Offerings of freight space have been somewhat sporadic, largely owing to the convoy system, which "bunched" sailings. Tonnage on certain routes is more plentiful than on others. Just as in the last war, many neutral shipowners, desiring to avoid the risks of the combat zone, diverted their vessels to other trade routes. Thus the entrance of neutral tonnage in trade with South and Central America has more than compensated for the immobilization of German ships and the withdrawal of British vessels.[41]

Under the circumstances, the greatest shortage of ships has developed in trade with Western Europe; and this situation was obviously aggravated by enactment of the neutrality law. The delays and reduction in speed caused by the convoy system also curtailed the carrying capacity of ships by almost 40 per cent. By November 1939 sailings out of Gulf ports had been reduced by about half, and those from North Atlantic ports by a third. Additional neutral and British tonnage, however, soon filled the breach.[42] In January 1940 clearances from the port of New York were almost back to normal, particularly when one takes into consideration the fact that operation of many large passenger liners has been discontinued.[43]

Although ample facilities have on the whole been available for American shippers, the supply of tonnage has been sufficiently restricted to enable shipowners to discriminate against cheap and bulky cargoes. Thus shipments of lumber and, to a certain extent, grain, appear to have suffered. Cotton, however, has been shipped in large volume. The clearest indication that shipping services have been adequate is afforded by the absence of any real port congestion similar to that which developed in the early years of the last war. Reports of congestion have invariably proved unfounded on investigation. The Division of Port Traffic, which the Association of American Railways established in the fall of 1939 to prevent congestion, found it necessary to intervene only once, when it instituted a permit system for the railway movement of grain to New Orleans where the elevators were full. In southern ports the movement of cotton has met no real difficulty. During November, when American tonnage was withdrawn, receipts of cotton greatly exceeded exports, but since that month export shipments have more than kept pace with receipts.[44] From the beginning of the season, August 1, to the end of February cotton exports aggregated 4,940,998 bales—a figure far in excess of the previous year.

It is possible, however, that United States exports would expand more rapidly if a larger number of vessels were available. The drastic import restrictions introduced by France and Britain were in part motivated by a desire to reserve cargo space for the most essential goods, as well as by the need to conserve foreign exchange. While the latter motive was probably the dominant one, restrictions might not be quite so severe if there were no prospect of a shipping shortage.

39. In recent years the United States has supplied but 10 per cent of Britain's imports of food, drink, tobacco and raw materials, as compared with 20 per cent at the beginning of the World War. Cf. "Recent Trends in United States Export Trade," *Survey of Current Business*, December 1939.

40. Cf. a series of mimeographed studies covering the principal agricultural commodities published by the Bureau of Agricultural Economics during the fall of 1939.

41. Most of the British lines (Lamport & Holt, Furness-Prince, Booth and Norton) now maintain their services between North and South America with neutral vessels, primarily of Scandinavian registry.

42. To cite some examples, the Cosmopolitan Shipping Company inaugurated a freight service from U.S. Atlantic ports to Rotterdam-Antwerp and Havre-Bordeaux in November; Furness Withy & Co. (British) announced its intention to re-enter the New York-London trade that same month; and in December the Mosvold Line (Norwegian) started a fast freight service between New York and Liverpool.

43. In January 1940 clearances were granted to 514 vessels totaling 1,848,057 tons; in January 1939, to 447 ships of 2,106,742 tons. *Journal of Commerce*, February 19, 1940.

44. Statistics compiled from the *Journal of Commerce* show that receipts exceeded exports by 454,140 bales in the first four weeks after November 3. For the period from November 3, 1939 to March 1, 1940, however, the difference amounted to only 393,054 bales.

### THE RISE IN FREIGHT RATES

Freight rates have risen sharply. There is no longer a surplus of tonnage, so that shipowners—for the first time in many years—have had the whip hand in determining rates. On regular liners rates are for the most part fixed by so-called conference agreements among the companies operating ships on each route. In general, conference rates on American exports to Britain and the Mediterranean have gone up about 50 per cent; to the Continent and Scandinavia as much as 100 per cent. On shipments to other areas the advance has been less marked—10 per cent from Atlantic ports, and 25 per cent from Pacific ports, to the east coast of South America; and from 20 to 25 per cent to the Far East, Australia and New Zealand.

Actually the increase on many specific commodities was far greater.[45] The rate on heavy grain shipments from New York to Antwerp-Rotterdam, which was only 15 cents per 100 pounds before the war, had soared to 85-90 cents by mid-February. Rates on lumber from the Pacific Coast to the United Kingdom had tripled by the end of 1939. The freight charge on cotton shipments from the Gulf to the United Kingdom rose from 45 cents per 100 pounds before the war to $1.00 in October. The withdrawal of American ships was instrumental in advancing the rate to $2.00. After a drop to $1.50 early in January 1940, it climbed back to $2.00. Cotton freights to the Far East doubled.

The charter hire of tankers and cargo vessels has risen even more sharply. Tankers have been in such demand that charter rates, both in domestic and foreign trade, were almost five times higher in February 1940 than before the war.[46] Time charter rates on freighters on the Pacific Coast are reported to have tripled during the first four months of the war.[47] By March 1940 the charter hire on vessels in the coal trade to Italy had virtually quadrupled.[48]

The Maritime Commission has been unable to check this rise in freight charges. Under Section 15 of the Shipping Act of 1915 all conference agreements regulating rates or other aspects of competition must be filed with the Commission, which can cancel or modify them if they are found to be discriminatory or detrimental to the commerce of the United States. It has no power, however, to fix rates, and if it refuses to allow an increase resulting from a brisk demand for tonnage, shipping companies can always escape its jurisdiction either by severing their connection with the steamship conference regulating the rates or by withdrawing their vessels and employing them where high rates are allowed to prevail. The Commission can enforce more effective control over government-supported American lines, but these nowhere occupy such a dominant position that they are able to determine the rate structure.

Charter rates are not subject to the Commission's jurisdiction. During war the number of tramp ships which, as distinguished from regular liners, seek employment wherever demand for shipping is greatest always tends to increase. The only way in which the Commission might indirectly affect charter rates would be to release some of its laid-up vessels and permit their use as tramps. As a heritage from the World War the government still has a large laid-up fleet of 113 old ships. If a substantial number of these were put back into operation, it would undoubtedly depress the cost of chartering ships.

It would be misleading, however, to conclude that the uncontrolled increase in freight rates has necessarily been prejudicial to American commerce. The burden of higher transportation costs, whether on imports or exports, is by no means always borne by Americans. The extent to which the importer or exporter absorbs the higher charge is a question of supply and demand. If the commodity or article transported is very much in demand and the supply is correspondingly restricted, the importer will usually be forced to shoulder any increase in freight rates. The fact that the British government requisitioned merchant vessels to carry essential imports at fixed rates indicates its belief that Britain in the last analysis pays the transportation costs on such goods. Americans who export products wanted by the belligerents are therefore scarcely affected by rising freight rates. On the other hand, those whose goods are not particularly wanted can presumably export them only by keeping prices low and assuming the cost of transportation.

### SHALL WE BUILD MORE SHIPS?

The great demand for tonnage occasioned by the war has inevitably raised the question whether the

45. For a list of conference rates on individual commodities, cf. *Journal of Commerce*, March 4, 1940.

46. For example, the *Journal of Commerce* for January 2, 1940 reported a clean tanker chartered for the Gulf-North of Hatteras trade at 65 cents a barrel for gasoline, 68 cents for kerosene and 71 cents for No. 2 oil. Before the war the rate had been about 14 cents per barrel. A tanker chartered from the Gulf to France brought $14 per ton in February 1940, compared to $2.50 the year before. *Ibid.*, March 4, 1940.

47. The rate per ton and per month went up from about $1.30 to $4 on modern, foreign motorships, and from $1 to $2.75 and $3 on older coal-burning vessels. Cf. Captain H. A. Jeans, "The Charter Market in Restrospect," *Pacific Ports and Marine News*, December 1939.

48. *Journal of Commerce*, March 5, 1940.

Maritime Commission should not accelerate its construction program. It might be argued that the building of more ships would not only prevent the possible development of a serious shortage of transportation facilities, but would also be extremely valuable if the United States should become involved in war. Moreover, if at the conclusion of the war the United States had a large number of new ships available, the chance of capturing a considerable share of the carrying trade might be greatly enhanced. Yet there are strong objections to increasing or even maintaining the present volume of construction. Prolongation of the war will undoubtedly entail a rise in building costs; and ships built at high wartime costs would later be under great handicap in competing with vessels constructed after the cessation of hostilities. American experience in the last post-war period offers a sharp warning in this respect.

Moreover, American shipyards might not be able to accommodate much new building. At the beginning of 1940 they had under construction 139 commercial ships of 1,119,555 gross tons, and 38 naval vessels of 241,725 tons displacement,[49] and were employed virtually at capacity. While a statement recently issued by the National Council of American Shipbuilders[50] claimed that physical capacity could be increased 50 per cent by reconditioning 37 inactive ways which are now partially dismantled, other limitations could not be overcome so easily. Shipbuilding is a highly technical industry which requires specialized engineers, architects and craftsmen. Already a marked shortage of skilled labor in this field has developed. Experience during the World War proves that shipbuilding capacity can undoubtedly be expanded, but only at considerable expense. And any extension of construction facilities will probably be quickly absorbed by the accelerated naval building program of the United States.

It is doubtful, too, that the Commission could get commitments to charter or buy many ships in addition to those already ordered. The replacement requirements of the foreign trade fleet are in large part satisfied—at least for the time being. Unquestionably there is a pronounced need for new tonnage in the intercoastal and coastwise services. With few exceptions, no vessels have been built for the domestic trade since the completion of the government's World War program. Replacements seem to be vitally necessary, not only if the fleet is to give adequate commercial service, but especially if the requirements for national defense are to be met. The Navy has informed the Commission that it would need 1,000 merchant vessels in time of war to accompany the fleet and serve as cargo-carrying adjuncts.[50a] Since less than 400 ships are engaged in foreign trade, most of the vessels in coastwise and intercoastal services would also have to be taken over. The bulk of these, however, are too old and too slow to be very useful.

Few companies in the domestic trade, moreover, are able to finance new construction. Their earnings have been depressed by excess tonnage and railway competition, and their capital seriously depleted.[51] Nor can they qualify for construction and operating subsidies because the services which they operate are completely closed to foreign competition.

### THE SALE OF OLD TONNAGE

The war might conceivably pave the way for a substantial increase in building immediately after the conclusion of hostilities. Now that ships are in great demand, the United States has an unusually good opportunity to sell off its old tonnage and thus accumulate funds for new construction. In theory, ships might be sold from (1) the government-owned laid-up fleet, (2) the domestic trade fleet which is at present heavily overtonnaged, and (3) the foreign trade fleet. Almost immediately after the outbreak of the war the government received many inquiries from abroad, both from neutrals and belligerents, about the possibility of buying its vessels. Under legislation adopted by Congress in 1939,[52] however, the Commission cannot sell any laid-up vessels which are 20 years old or over; and at present only 25 of the 113 laid-up vessels are under 20 years of age. Although the Commission was obliged, under these circumstances, to announce on January 16 that the laid-up fleet was not for sale or charter, the advisability of lifting the legislative prohibition is still under consideration. In the opinion of some experts, it would be desirable to keep the government ships in reserve for an emergency, whether commercial or military, even though nearly all of these vessels may be too slow and too old to be of great use for war service. Others believe, however, that the United States should not neglect a golden opportunity to sell vessels which otherwise may become a dead loss.

The sale of privately owned ships is possible, but the Maritime Commission must give its consent before any American-flag vessel can be sold and

49. Statement by the National Council of American Shipbuilders, issued for release January 2, 1940.

50. *The New York Times*, January 18, 1940.

50a. U.S. Maritime Commission, *Economic Survey of Coastwise and Intercoastal Shipping*, pp. 22-23.

51. U.S. Maritime Commission, *Economic Survey of Coastwise and Intercoastal Shipping, 1939*, pp. 29-30.

52. 76th Congress, 1st session, *Public No. 259*, section 7.

transferred to foreign registry. In practice, the Commission has usually given its approval for the sale of obsolete or nearly obsolete ships, although insisting in many cases that the proceeds be definitely earmarked for new construction. Many companies, both in foreign and domestic trade, have taken advantage of foreign offers and sold ships, which before the war would have brought only $5 or $6 per dead-weight ton in the scrap market, at prices ranging from $35 to $50 per ton. The number of sales sanctioned by the Commission has risen steadily since the war, as the following table indicates:

SALES APPROVED BY THE MARITIME COMMISSION*

| | *No. of Vessels* | *Total Gross Tonnage* |
|---|---|---|
| *1939* | | |
| September | 4 | 867 |
| October | 17† | 65,425 |
| November | 9§ | 16,517 |
| December | 13‡ | 22,094 |
| *1940* | | |
| January | 13 | 59,428 |
| February | 34 | 199,683 |
| Total | 90 | 364,014 |

*Compiled from press releases of the U.S. Maritime Commission. Vessels transferred to foreign registry without actual sale (including 16 tankers and four other vessels) are omitted.
†Including 14 vessels (68,197 gross tons) sold by Moore-McCormack to Lloyd Brasileiro—a transaction initiated before the war.
§Including 5 trawlers of unspecified tonnage.
‡Including 3 lumber schooners of unspecified tonnage.

Of the total, French and British purchases accounted for 119,307 tons, while the remainder was transferred to the flags of Greece, Panama, Belgium, Brazil and other neutral countries. At present the Maritime Commission is considering a record number of applications for approval of sale.[53] If the war continues and shipping losses mount, the demand for American ships will undoubtedly become still greater. Many shipowners are withholding offers of tonnage in anticipation of higher prices.

53. Among the shipping concerns which have obtained the Commission's approval for the sale of ships are Lykes Brothers and its subsidiary, Tampa Interocean Steamship Co. (11 vessels—78,090 gross tons), American Hawaiian Steamship Company (5 vessels—28,953 tons), Munson Line (2 ships—6,988 tons), Pacific-Argentine Steamship Co. (2 ships—10,827 tons), Gulf-Pacific Mail Line which discontinued intercoastal operations (6 vessels—28,633 tons), and U.S. Lines (8 ships—66,004 tons).

### CONCLUSION

Today the position of American shipping is far different from what it was in the early years of the World War. At the start of the present conflict the United States had a sizeable, although old, merchant marine which was carrying about a third of our foreign trade. The Maritime Commission had under way a program of new construction which would bring many modern ships into operation during the next year or two. The tonnage, both foreign and American, available for continued commercial operation was much greater than in 1914. While the war inevitably increased the demand for ships, the shortage of transportation facilities and the rise in freight rates have not assumed such serious proportions as last time. In many cases the freight charges on American goods have been assumed by the foreign importer. With few exceptions our exports have not been handicapped by lack of cargo space. The initial disorganization of shipping caused by the war was soon corrected. Although the withdrawal of American bottoms aggravated an incipient shortage of ships in traffic in the combat zone, neutral and belligerent vessels have largely filled the breach. There is no evidence that American ports are congested with goods awaiting shipment, in spite of the fact that exports have remained well above the level of the preceding year.

The Neutrality Act undoubtedly deprived a number of shipping concerns of potentially large earnings, but virtually all of the displaced vessels found employment elsewhere. Many American companies were able to expand their services outside the combat zone either because traffic increased or because foreign competitors withdrew their ships. In common with other neutrals, our shipowners are in a position to reap greater profits. The likelihood that old tonnage will be sold at attractive prices also indicates that shipowners may come out of the war in an improved financial condition provided the United States remains neutral.

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**U.S. TARIFF BARGAINING AND THE EUROPEAN WAR** *by David H. Popper*